

## Message Text

CONFIDENTIAL

PAGE 01 OTTAWA 02671 01 OF 02 291755Z  
ACTION EB-08

INFO OCT-01 AF-10 ARA-10 EA-10 EUR-12 NEA-11 IO-13  
ISO-00 AGRE-00 CEA-01 CIAE-00 COME-00 DODE-00  
FRB-03 H-01 INR-10 INT-05 L-03 LAB-04 NSAE-00  
PA-01 CTME-00 AID-05 SS-15 STR-07 ITC-01 TRSE-00  
SP-02 SOE-02 OMB-01 DOE-15 OIC-02 NSCE-00 SSO-00  
ICAE-00 INRE-00 XMB-02 DOEE-00 OES-07 DOTE-00  
/162 W

-----009902 291809Z /41

O 291742Z MAY 78  
FM AMEMBASSY OTTAWA  
TO SECSTATE WASHDC IMMEDIATE 7513  
INFO USMISSION GENEVA PRIORITY  
AMCONSUL MONTREAL  
AMCONSUL TORONTO BY POUCH

C O N F I D E N T I A L SECTION 01 OF 02 OTTAWA 02671

USMTN

E.O. 11652: GDS  
TAGS: ETRD, CA  
SUBJECT: CANADIAN PLANS FOR AUTO INVESTMENT INDUCEMENTS

1. SUMMARY: IN SEPARATE MEETINGS MAY 25 AND 26 WITH  
ONTARIO PREMIER DAVIS AND TREASURER MC KEOUGH, AMBASSADOR  
URGED THAT POTENTIAL CLASH OVER GOC INVESTMENT INDUCE-  
MENTS FOR AUTO INDUSTRY BE AVOIDED BY SEEKING MEANS IN MTN  
SUBSIDIES NEGOTIATIONS TO RESTRAIN THEIR USE. EMBASSY,  
THEREFORE, REQUESTS URGENTLY WASHINGTON ASSESSMENT OF  
PROSPECTS FOR VIGOROUSLY PURSUING INVESTMENT INDUCEMENTS  
ISSUE IN GENEVA BEFORE AMBASSADOR FOLLOWS UP ON TORONTO  
DISCUSSIONS WITH CALLS ON CHRETIEN AND ITC MINISTER  
HORNER.

2. UNDER POLITICAL PRESSURE FELT BOTH IN TORONTO AND  
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 OTTAWA 02671 01 OF 02 291755Z

OTTAWA, DAVIS AND MC KEOUGH SAID GOC WAS PREPARING PROGRAM  
OF GRANTS AND INVESTMENT SUBSIDIES TO OFFSET INDUCEMENTS  
OFFERED BY US STATES SO THAT CANADA WOULD SHARE IN DOLS 50  
BILLION INDUSTRY HAS SAID IT WILL INVEST OVER NEXT TEN  
YEARS. INITIAL FUNDING WOULD BE AROUND CDOLS 200 MILLION  
AND WOULD PROVIDE FOR PROVINCIAL CONTRIBUTION. BOTH DIS-  
LIKED SUBSIDIZING INVESTMENT BY PROFITABLE INDUSTRY, BUT

FELT THERE WAS NO CHOICE POLITICALLY BUT TO PARTICIPATE. AMBASSADOR EXPLAINED SUSTAINED PROGRAM BY CANADIAN FEDERAL GOVERNMENT WOULD BE MAJOR ESCALATION FROM STATE AND PROVINCIAL LEVEL -- RAISING PROSPECT OF COUNTERACTION IN RESPONSE TO COMPLAINTS UNDER COUNTERVAILING DUTY AND TRADE GRIEVANCE PROVISIONS OF US LAW. A BETTER WAY TO DEAL WITH INDUCEMENTS PROBLEM WOULD BE TO USE SUBSIDIES CODE NEGOTIATION IN MTN TO SEEK TO CONSTRAIN ACTION BY LOCAL GOVERNMENTS, AND, IF NECESSARY, TO EXAMINE ROLE USE OR THREAT OF COUNTERVAILING DUTIES MAY PLAY IN CONTAINING INDUCEMENTS COMPETITION. MC KEOUGH UNDERTOOK TO URGE GOC FINANCE MINISTER CHRETIEN TO DISCUSS INDUCEMENTS ISSUE WITH U.S. BEFORE COMMITTING TO NEW PROGRAM.

3. OTHER MAIN TOPIC OF DISCUSSIONS WAS ASSERTIONS AND CONCLUSIONS PUT FORTH IN ONTARIO STUDY OF OPERATION OF AUTO PACT, ACCORDING TO WHICH CANADA IS BEING SHORTED UNDER EACH KEY MEASURE OF INDUSTRY OPERATIONS. STUDY, AMBASSADOR SAID, HAD THREE WEAKNESSES: CONCEPT OF SHARING WAS NOT BASIS OF AUTO PACT, ONTARIO ASSERTION OF RIGHT TO "FAIR SHARE" COULD STIMULATE CLAIMS IN U.S. ON SAME BASIS, ANALYSIS UNDERLYING STUDY'S CONCLUSIONS IS SHAKY. NEITHER DAVIS NOR MC KEOUGH STUCK BY STUDY; DAVIS SAID "FAIR SHARE" WAS DESIRABLE CONCEPT AND MC KEOUGH CONCLUDED STUDY HAD SERVED PURPOSE OF ALERTING INDUSTRY TO ONTARIO'S CONCERNS AND NEED NOT BE PURSUED FARTHER. DAVIS INDICATED

CONFIDENTIAL

PAGE 03 OTTAWA 02671 01 OF 02 291755Z

HE WOULD CONTINUE TO PRESS FOR MORE AUTO R AND D IN CANADA, WHILE MC KEOUGH THOUGHT THIS WAS FRUITLESS. END SUMMARY.

4. AMBASSADOR MET WITH ONTARIO PREMIER DAVIS AND TREASURER MC KEOUGH MAY 25/26 FOR FULL DISCUSSION OF CURRENT AUTO PACT ISSUES. ECONOMIC COUNSELOR PLACKE PARTICIPATED IN DAVIS MEETING.

5. ONTARIO TREASURY STUDY OF AUTO PACT. FIRST FOCUS OF DISCUSSION WAS STUDY ISSUED EARLY MAY BY MC KEOUGH, ADVANCING CONCEPT OF "FAIR SHARE" DIVISION OF AUTO INDUSTRY JOBS, INVESTMENT, R AND D, AND VALUE ADDED. STUDY CLAIMS THAT "FAIR SHARE" STANDARD IS IMPLICIT IN AUTO PACT AND THAT BY THIS STANDARD CANADA SHOULD HAVE HAD IN 1976 25,000 ADDITIONAL JOBS, CDOLS 866 MILLION IN ADDITIONAL INVESTMENT, CDOLS 200 MILLION IN R AND D EXPENDITURES, AND BALANCED TRADE.

6. AMBASSADOR SAID THERE WERE THREE THINGS WRONG WITH THE STUDY: A) AUTO PACT AGREEMENT CONTAINS NO CONCEPT OF SHARING JOBS, INVESTMENT, R AND D, AND VALUE ADDED; B)

EFFORT TO INTRODUCE SUCH A CONCEPT AT THIS POINT WOULD  
INEVITABLY STIMULATE U.S. LABOR AND INDUSTRY TO ADVANCE  
THEIR OWN CLAIMS, AND A GOOD CASE COULD BE MADE THAT THE  
US IS BY THE ONTARIO STUDY'S OWN CRITERION 20,000 JOBS  
.SHORT; C) THE STUDY'S NUMBER WORK IS VERY SHAKY: IT  
DEPENDS ON UNVERIFIED ASSUMPTIONS ABOUT HOW TO MATCH  
INDUSTRIAL CLASSIFICATIONS BETWEEN THE TWO COUNTRIES AND  
EVEN SMALL REVISIONS COULD HAVE MAJOR IMPACT ON THE  
CANADIAN SHARE OF THE TOTAL.  
7. NEITHER DAVIS NOR MC KEOUGH REALLY CONTESTED THESE  
POINTS. DAVIS SAID ONTARIO "WOULD LIKE TO SEE" THE  
"FAIR SHARE" CONCEPT FOLLOWED, BUT DIDN'T WANT TO GET INTO  
AN ARGUMENT OVER THE NUMBERS. MC KEOUGH SAID THAT HE  
FRANKLY WANTED ONLY TO HAVE SOMETHING TO USE AS A BAR-  
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 OTTAWA 02671 01 OF 02 291755Z

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 OTTAWA 02671 02 OF 02 291803Z  
ACTION EB-08

INFO OCT-01 AF-10 ARA-10 EA-10 EUR-12 NEA-11 IO-13  
ISO-00 AGRE-00 CEA-01 CIAE-00 COME-00 DODE-00  
FRB-03 H-01 INR-10 INT-05 L-03 LAB-04 NSAE-00  
PA-01 CTME-00 AID-05 SS-15 STR-07 ITC-01 TRSE-00  
SP-02 SOE-02 OMB-01 DOE-15 OIC-02 NSCE-00 SSO-00  
ICAE-00 INRE-00 XMB-02 DOEE-00 OES-07 DOTE-00  
/162 W

-----009908 291809Z /50

O 291742Z MAY 78  
FM AMEMBASSY OTTAWA  
TO SECSTATE WASHDC IMMEDIATE 7514  
INFO USMISSION GENEVA PRIORITY  
AMCONSUL MONTREAL  
AMCONSUL TORONTO BY POUCH

C O N F I D E N T I A L SECTION 02 OF 02 OTTAWA 02671

GAINING LEVER WITH THE COMPANIES AND WITH ITC IN OTTAWA.  
HE CLAIMED THAT OTTAWA HAD ALREADY MADE SOME REVISIONS  
IN ITS OWN ANALYSES (NOTABLY IN ITS CALCULATION OF

CANADA'S SHARE OF EMPLOYMENT) AS A RESULT OF THE ONTARIO STUDY. HOWEVER, HE ADMITTED THAT OTTAWA'S CALCULATIONS STILL SHOW THAT BY THE "FAIR SHARE" CRITERION, THE US IS SHORT ON JOBS.

8. AMBASSADOR SAID THAT IF ONTARIO INSISTED ON THE STUDY, US WOULD HAVE TO ANSWER IT, AND ENSUING CONTROVERSY MIGHT WELL STIMULATE DEMANDS FOR ACTION ON THE PACT FROM THE US SIDE AS WELL AS FROM THE CANADIAN SIDE. AFTER SOME DISCUSSION, MC KEOUGH SAID THAT ONTARIO WOULD NOT PURSUE THE STUDY FURTHER IN PUBLIC SPEECHES OR IN BARGAINING. HE CONCLUDED "THAT IT HAS ALREADY SERVED ITS PURPOSE."

9. DAVIS SAID HE RECOGNIZED THAT THE PACT COULD NOT GOVERN R AND D, BUT INTENDED TO PRESS THE BIG THREE  
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 OTTAWA 02671 02 OF 02 291803Z

PRODUCERS TO BE BETTER CORPORATE CITIZENS BY ESTABLISHING SOME SEGMENT OF THEIR R AND D PROGRAMS IN ONTARIO. HE ADMITTED THIS WOULD BE DIFFICULT, BUT SAID THAT FORD CANADA'S REACTION WAS POSITIVE (SINCE FORD FEELS ON THE DEFENSIVE ABOUT ITS COMPLIANCE WITH PACT CONSTRAINTS), WHILE GM AND CHRYSLER HAD ONLY LISTENED POLITELY WITHOUT COMMENT. MC KEOUGH SAID THAT IN HIS OPINION DAVIS WAS "NUTS" TO PUSH THE R AND D ISSUE, SINCE NOTHING WOULD COME OUT OF IT.

10. INVESTMENT INDUCEMENTS. DAVIS AND MC KEOUGH SAID THAT INDUSTRY ANNOUNCEMENTS ON DOLS 50 MILLION PLUS IN INVESTMENT OVER NEXT 10 YEARS WERE PUTTING THE HEAT ON THEM, WITH THE OPPOSITION BOTH IN TORONTO AND OTTAWA (MAINLY NDP) DEMANDING ACTION TO NAIL DOWN CANADA'S SHARE. THEY AGREED THAT INVESTMENT INDUCEMENTS OFFERED BY US STATES WERE NEITHER THE ONLY NOR THE MAIN DETERMINANT OF LOCATION, BUT COULD BE DECISIVE WHERE OTHER FACTORS TOTALLED UP TO A WASH. GOC WAS PREPARING A PROGRAM OF GRANTS AND INTEREST SUBSIDIES -- IN ADDITION TO PRESENT SYSTEM OF REGIONAL DEVELOPMENT GRANTS -- TO MEET COMPETITION FROM US STATES (OTTAWA 2372). PROGRAM WOULD PROBABLY INVOLVE CDOLS 200 MILLION AS ITS INITIAL FUNDING, AND WOULD INCLUDE PROVISION FOR PROVINCIAL CONTRIBUTION. BOTH DAVIS AND MC KEOUGH EXPRESSED OPPOSITION TO PAYING A PROFITABLE INDUSTRY TO INVEST, AND MC KEOUGH ACCUSED THE GOC OF "PANICKING." BUT ONTARIO WOULD HAVE NO CHOICE POLITICALLY BUT TO PARTICIPATE ONCE PROGRAM IS PROPOSED IN PUBLIC AND OTHER PROVINCES (I.E., QUEBEC) JOIN IN.

11. AMBASSADOR EXPLAINED THAT A SUSTAINED PROGRAM OF INDUCEMENTS BY THE CANADIAN FEDERAL GOVERNMENT WOULD BE A MAJOR ESCALATION OF THE ISSUE, WHICH HAD SO FAR BEEN

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 OTTAWA 02671 02 OF 02 291803Z

PRIMARILY A STATE AND PROVINCIAL ONE. HE REMINDED DAVIS AND MC KEOUGH OF POTENTIAL FOR COUNTERVAILING DUTY AND TRADE GRIEVANCES ACTION UNDER SECTIONS 301 AND 331 OF THE TRADE ACT. RIGHT WAY TO DEAL WITH THE ISSUE WOULD BE A) TO TRY TO USE THE SUBSIDIES DISCUSSIONS NOW UNDERWAY IN GENEVA TO CREATE A FRAMEWORK CONSTRAINING AS MUCH AS POSSIBLE ACTIONS STATE, PROVINCIAL, AND LOCAL COMMUNITIES; AND B) EXAMINE SUBSEQUENTLY WHAT FURTHER ACTION, INCLUDING THE THREAT OR USE OF COUNTERVAILING DUTY AND TRADE GRIEVANCES PROVISIONS, MIGHT BE NECESSARY TO PREVENT CUT-THROAT COMPETITION IN INVESTMENT INDUCEMENTS.

12. MC KEOUGH AGREED, BUT EXPRESSED CONCERN THAT THE FEDERAL CABINET (WHICH IS SCHEDULED TO CONSIDER THE PROGRAM NEXT) MIGHT "RUN AWAY WITH ITSELF." MC KEOUGH UNDERTOOK TO CALL FINANCE MINISTER CHRETIEN MAY 29 TO URGE HIM TO HOLD DISCUSSIONS WITH THE U.S. PRIOR TO COMMITTING TO A PROGRAM OF FEDERAL INDUCEMENTS. AMBASSADOR WILL MAKE SAME POINTS TO FEDERAL ITC MINISTER HORNER AND CHRETIEN IN SUBSEQUENT CALLS.

13. ACTION REQUESTED. YOU CAN'T BEAT SOMETHING WITH NOTHING, AND KEY TO DETERRING RASH GOC ACTION WOULD APPEAR TO BE VIGOROUS AND PROMPT PROGRAM IN GENEVA ON SUBSIDY CODE PROVISIONS THAT WOULD HAVE SOME CHANCE OF BEING ACCEPTED BY BOTH SIDES AND OF CONSTRAINING COMPETITION. PLEASE GIVE US AS SOON AS POSSIBLE YOUR ASSESSMENT OF POTENTIAL THERE, PLUS ANY OTHER POINTS YOU WISH MADE TO CHRETIEN AND HORNER. ENDERS

CONFIDENTIAL

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** AUTOMOTIVE INDUSTRY, INVESTMENTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 29 may 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1978OTTAWA02671  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D780225-0359  
**Format:** TEL  
**From:** OTTAWA  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1978/newtext/t19780510/aaaaaiap.tel  
**Line Count:** 259  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Message ID:** d9204693-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION EB  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 5  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 08 jul 2005  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 2507175  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** CANADIAN PLANS FOR AUTO INVESTMENT INDUCEMENTS  
**TAGS:** ETRD, CA  
**To:** STATE USMTN  
**Type:** TE  
**vdkgvwkey:** odbc://SAS/SAS.dbo.SAS\_Docs/d9204693-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014